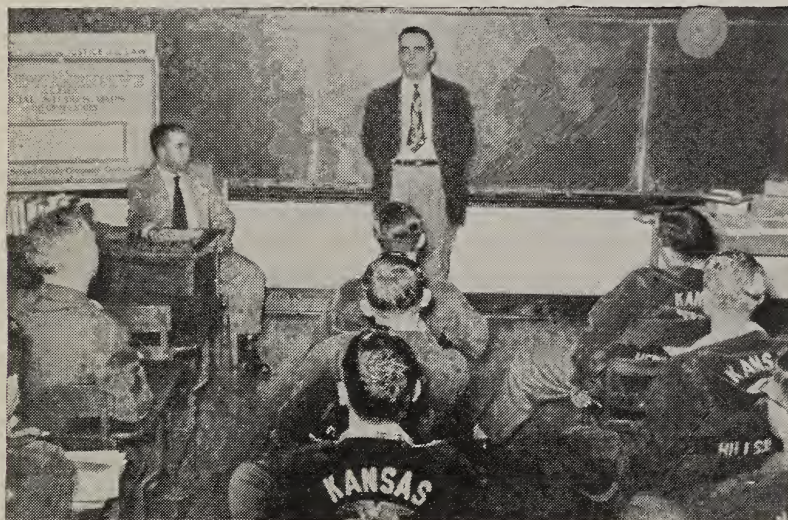


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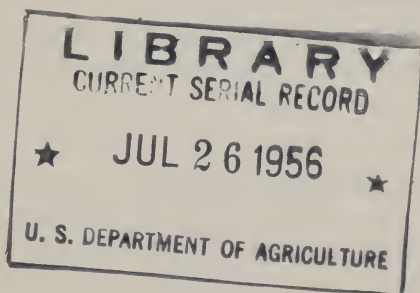
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Guide for Teaching Farmer Cooperation



by John H. Heckman

FARMER COOPERATIVE SERVICE
U. S. Department of Agriculture
Washington, D. C.



in cooperation with the
American Institute of Cooperation

FCS Educational Circular 3
(Including Supplement)
(Formerly FCA Circular E-34)

November 1954

Service. "What is a Co-op?" Cooperative League of the United States of America. "Beyond the Land," Consumers' Cooperative Association.

2. Examples of Successful Cooperatives

a. *Industry-wide or national.*

National Livestock Producers' Association, 139 North Clark Street, Chicago 2, Ill.

References: FCA Bulletin 54, page 91. "The General Farm and National Cooperative Organizations," page 15—American Institute of Cooperation.

Turpentine Farmer Association Cooperative, Valdosta, Ga.; American Cranberry Exchange, 90 West Broadway, New York, N. Y.

References: FCA Bulletin 54, page 72. Film—"The Cranberry Story," American Cranberry Exchange.

Rural Electrification Administration, Washington, D. C.

References: REA, "Electricity Comes to Rural America," "The REA Pattern," "This is an REA Co-op," "A Guide for Members of Rural Electric Co-ops."

Farm Credit Administration, Washington, D. C.

Reference: FCA Circular 5.

b. *Regional and State.*

Southern States Cooperative, Inc., Richmond, Va. Farmers' Cooperative Exchange, Raleigh, N. C. South Carolina Peach Growers Association, Spartanburg, S. C. Tennessee Farmers' Cooperative, Columbia, Tenn. Oklahoma Cotton Cooperative Association, Oklahoma City, Okla. Union Equity Cooperative Exchange, Enid, Okla. Consumers' Cooperative Association, Amarillo, Tex. Texas Livestock Marketing Association, Fort Worth, Tex. Farmers' Marketing and Exchange Association, Montgomery, Ala. Associated Cooperatives Incorporated, Sheffield, Ala. Arkansas Farm Bureau Cooperative, Little Rock, Ark. Mid-South Cotton Growers' Association, Memphis, Tenn. Mississippi Federated Cooperative, Jackson, Miss. Cotton Producers Association, Atlanta, Ga. Florida Citrus Exchange, Tampa, Fla.

NOTE.—Additional examples of State cooperatives should be available in the States. Reference material may also be obtained from these cooperatives.

3. Objectives of Farmer Cooperatives

- a. To improve farm income.
- b. To provide new, improved, or more economical services.
- c. To secure through group action services which cannot be obtained individually.

d. To secure for the family farm the same processing, marketing, supply, storage, insurance, and credit services and facilities as would

be available if the farm were large enough to maintain them as departments.

References: FCA Bulletin 26, pages 1 and 2. Arkansas Extension Service Circular 447, page 4.

B. What Services Do Cooperatives Perform?

Farmer cooperative activities can be grouped into five classes: Production, purchasing, marketing, processing, and services. There are very few production cooperatives in the United States. Therefore, only the four most important types will be considered.

1. A List and Explanation of the Four Principal Types of Farmer Cooperative Associations Follow:

a. *Purchasing*.—Through these cooperatives farmers secure supplies for their farming operations. The cooperatives purchase supplies in large quantities. They purchase some of them in processed form and manufacture or mix the remaining portion in plants owned by the cooperatives.

b. *Marketing*.—The complete job of marketing is doing all the things which are necessary to take a product from the producer to the consumer. The most important of these jobs are assembling, grading, packing, processing, financing, storing, selling, and transporting. Individual cooperatives seldom do all these jobs. Some do only one; others, only a few. However, there are examples of all these activities being done cooperatively.

c. *Processing*.—Processing is such an important job in marketing that it is mentioned separately. Processing involves assembling, cleaning, treating, manufacturing, and packaging. Products which are processed are those usually intended for storage or shipment into distant areas.

d. *Farm services*.—Farm service cooperatives do jobs which are necessary to the farm business and family living other than those of marketing products or of purchasing farm supplies.

2. Examples of the Above Types.

a. *Purchasing*.

Feed, seed, fertilizers, fuel, machinery, building material, and packages.

References: FCA Circular E-11. Film—"From These Roots," Cooperative G. L. F. Exchange, Inc.

b. *Marketing*.

Dairy.

References: FCA Circular E-14, and C-116. Films—"Milk for Goodness Sake," Maryland and Virginia Milk Producers Association. "Land O'Lakes Creameries," Land O'Lakes Creameries, Inc.

Poultry and poultry products.

References: FCA Circular E-13 and Miscellaneous Report 101. Film—"Market Wise," Washington Cooperative Farmers' Association.

Livestock, livestock products, and wool.

References: FCA Circular E-7 and FCS Educational Circular 2.

Films—"Livestock Cooperatives in Action," FCS. "Co-operative Wool from Fleece to Fabric," FCS.

Meat packing. Reference: FCA Miscellaneous Report 72.

Fruits, vegetables, and nuts. References: FCA Circular E-12. Film—"Fruits, Vegetables, and Cooperation," FCS.

Cotton. References: FCA Circular E-9. Film—"Cotton the Co-op Way," FCS.

Grain. References: FCA Circulars E-8 and C-122.

Seed. Reference: FCA Miscellaneous Report 87.

c. *Processing.*

Cotton ginning. Reference: FCA Circular E-9.

Milling of cotton seed. Reference: FCA Circular C-114.

Canning. Reference: FCA Bulletin 47.

Dairy products. Reference: FCA Circular E-6.

Freezing. References: FCA Miscellaneous Report 84 and Miscellaneous Report 129.

Dehydrating. Reference: FCA Miscellaneous Report 99.

d. *Farm services.*

Credit.

References: FCA Circulars 1, 3, 5, 6, and 7. Films—"Ten Years of Co-op Credit," FCA. "Banking on the Land," FCA. "What Is a Farm Worth?" FCA.

Electrification.

References: "This is an REA Co-op," REA. "Electricity Comes to Rural America," REA. Films—"Power and the Land," State Film Libraries. "Bob Marshall Comes Home," State Film Libraries.

Frozen food locker plants.

References: FCA C-127. FCA Miscellaneous Reports 20 and 116.

Insurance. Reference: FCA Circular E-15.

Irrigation. Reference: FCA Bulletin 8.

Transportation. Reference: FCA Miscellaneous Report 132.

Rural health. References: FCA Miscellaneous Report 123. FCA Bulletin 60:

Artificial insemination. Reference: FCA Circular C-133.

C. How Do Farmer Cooperatives Differ From Other Businesses?

1. Comparison of Cooperatives With Other Businesses

Farmers' cooperatives handle their day-to-day business operations in very much the same manner as do other types of business. This is necessary because cooperatives buy and sell in the same markets as their competitors. Thus both groups follow the same general business practices.

The main difference between the two types is in the interest of the owners in operating the business. The cooperative is operated to perform needed services for the members, who are the owners. The management is, therefore, interested in doing the most efficient job possible for the member owners. Thus economical service is the objective rather than earnings. Investments are made to provide these services to the owners of the business rather than to earn dividends. On the other hand, other types of business perform services for people who are not the owners. Hence, the chief interest of the owners is returns on their investment rather than in performing the particular job most needed by their customers. Thus, the service rendered is the objective of the cooperative type of business and profits from performing the service is the aim of noncooperative types of business. (See chart on page 6.)

References: FCA Circular E-25, page 6; EM23, page 4. Virginia Agricultural Extension Service Circular 476, page 15. Arkansas Agricultural Extension Service Circular 447, page 3.

2. Taxes

The idea, frequently expressed, that farmer cooperatives do not pay taxes is a mistaken one. In many communities the cooperatives are among the leading taxpayers and in some they are the largest. Agricultural cooperatives pay the same real estate, property, sales, social security, communications, and excise taxes that are paid by any business.

Agricultural cooperatives in certain instances do not pay Federal income taxes and stamp taxes on securities. The term "exemption," however, is a misnomer. Agricultural cooperatives are granted letters of exemption from income taxes on the premise that, in the final analysis, the cooperative does not have any income. Cooperatives are operated to perform buying, selling, or other services, as agents for their patrons, and not to make money. Thus their operations are at cost. When making charges or advances, it is impossible to determine the exact amount. So safe estimates of cost or the usual business charges are made. The difference between the amount of these charges and actual cost would be profit or income to noncooperative concerns. However, as the cooperative is performing services for their patrons at cost, this difference is allocated to them on the records of the cooperative or returned to them as a cash refund.

COMPARISON OF FOUR METHODS OF DOING BUSINESS UNDER PRIVATE ENTERPRISE

FEATURES COMPARED	TYPES OF BUSINESS			
	INDIVIDUAL	PARTNERSHIP	NON-COOPERATIVE CORPORATION	FARMER COOPERATIVE (USUALLY CORPORATION)
1. WHO USES THE SERVICES?	NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	GENERALLY NON-OWNER CUSTOMERS	CHIEFLY THE OWNER-PATRONS
2. WHO OWNS THE BUSINESS?	THE INDIVIDUAL	THE PARTNERS	THE STOCKHOLDERS	THE MEMBER-PATRONS
3. WHO VOTES?	NONE NECESSARY	THE PARTNERS	COMMON STOCKHOLDERS	• THE MEMBER-PATRONS
4. HOW IS VOTING DONE?	NONE NECESSARY	USUALLY BY PARTNERS' SHARE IN CAPITAL	BY SHARES OF COMMON STOCK	USUALLY ONE-MEMBER ONE-VOTE
5. WHO DETERMINES POLICIES?	THE INDIVIDUAL	THE PARTNERS	COMMON STOCKHOLDERS AND DIRECTORS	THE MEMBER-PATRONS AND DIRECTORS
6. WHO PROVIDES OWNERSHIP CAPITAL?	THE INDIVIDUAL	THE PARTNERS	THE STOCKHOLDERS AS INVESTORS	MOSTLY THE MEMBER-PATRONS
7. ARE RETURNS ON OWNER-SHIP CAPITAL LIMITED?	NO	NO	NO	• YES-USUALLY 5% OR LESS (RESEMBLES INTEREST MORE THAN DIVIDENDS)
8. WHO GETS THE OPERATING PROCEEDS?	THE INDIVIDUAL	THE PARTNERS IN PRO-PORTION TO INTEREST IN BUSINESS	THE STOCKHOLDERS IN PROPORTION TO STOCK HELD	• THE PATRONS ON A PATRONAGE BASIS

• BASIC PRINCIPLES OF FARMER COOPERATION



Through a field day pageant, amid farm surroundings, these young people are learning how farmer cooperatives are serving their community



These FFA boys helped to run a large dairy co-op for a day, and met later in the manager's office for a summarizing session.

Thus it does not become the income of the association. The patrons are liable for income tax on these funds as soon as they are received or even allocated.

However, cooperatives are not automatically exempt from income taxes. To secure exemption, cooperatives must make application to the United States Bureau of Internal Revenue, and give complete details on the operations of the association. If the association meets the requirements it is given a letter of exemption. These requirements are so rigid, however, that only slightly more than half of the agricultural marketing and purchasing cooperatives in the United States have letters of exemption.

Some of the major requirements which farmer cooperatives must meet to be eligible for letters of exemption are:

- a. The association must be organized and operated by farmers on a true cooperative basis.

- b. Substantially all of the voting stock shall be owned by producer patrons.

- c. The association shall not do more than half of its business (in value) with nonmembers.

- d. The association must deal with nonmembers on the same basis as with members.

- e. Purchasing associations shall not do more than 15 percent of their business (in value) with persons who are neither members nor producers.

- f. Dividends on capital stock shall be limited to 8 percent per year, or the legal rate in the State, whichever is higher.

- g. The association may have only such reserves as the State law requires, or reasonable reserves for any necessary purpose.

- h. Each patron's equity or interest in the association must be accurately kept in a permanent account.

References: "Farmer Cooperatives and the Federal Income Tax," National Council of Farmer Cooperatives. FCA Bulletin 54, page 7. FCA Circular A-20, page 7. FCA Bulletin 53. Texas Extension Circular B-152, page 10. Tennessee Extension Service Circular 311, page 20.

D. What Are the Possibilities of Success and Causes of Failure?

1. Some Reasons Why Farmer Cooperatives Succeed

When considering the possibilities of cooperatives succeeding, it is well to remember that there is nothing magic in cooperation itself. A cooperative will succeed on the type of job it does and not on the mere fact that it is a cooperative. Cooperation is just a method by which individual farmers collectively do business which they could not do by themselves. In doing this though they must be just as efficient and businesslike as any other type of business.

Some of the main points which govern success are listed.

a. *Accomplish the economic or service need for which they are established.*—There should be some need for the association and an opportunity for service before it is organized. After it is organized, a farmers' cooperative must justify its existence by successful performance.

b. *Membership understanding and support.*—Without the sympathetic understanding and loyal support of the membership, a farmers' cooperative has little chance of success. The members should attend, and participate in membership meetings, cooperate with other members in patronizing the association, and have pride of ownership in their organization.

c. *Proper management.*—All the efforts toward effective organization and operation of the cooperative will be nullified if the management is not efficient. The manager should be selected with the following qualifications in mind: (1) Character, (2) training, (3) experience, (4) personality, (5) alertness, and (6) attitude toward cooperative effort.

The manager is employed to carry out the policies established by the directors.

d. *Capable directors.*—The directors of a cooperative should be: (1) Loyal members, (2) democratically elected, (3) unselfish, (4) consistent in attendance at board and membership meetings, (5) capable businessmen as reflected in their own farming operations, and (6) as the policy makers of the association, should not attempt to assume the details of management.

e. *Sufficient business.*—There must be sufficient volume in prospect so that the usual handling margins will pay for the operations of the association. Also, this volume should be sufficient to be a real service to the community.

f. *Sufficient capital.*—It takes money to operate a business and cooperatives are no exception. Some can be borrowed but the major portion of day-to-day needs should be provided by the members. It is all right to borrow for peak season requirements, but the cooperative should be relatively free of debt for operating purposes during the slack seasons. The members should also provide for at least half the money for buildings and equipment, not borrowing more than 50 percent from sources other than the membership.

g. *Adequate charges.*—The cooperative must operate on the income from its service charges. Thus, they must be adequate to cover expenses.

h. *Adequate accounting and auditing.*

(1) Keep records of all transactions in accordance with the bylaws and sound cooperative practice. Also maintain complete stock and equity records.

(2) Have books and records audited by a disinterested auditor.

Make these reports of the auditors available to the directors and members.

i. *Sound credit policy*.—It is the best policy for a cooperative to operate for cash only.

j. *Public relations*.—A farmers' cooperative should be a good neighbor in the community in which it is located. Members, directors, and employees should conduct themselves in such a manner as to command the respect of all persons in the community. Be a part of the community—not outside it.

References: "Community Relationships", page 1. National Council of Farmer Cooperatives and American Institute of Cooperation.

k. *Affiliation with other cooperatives*.—Wherever possible, the cooperative should join with others in joint ventures for mutual benefit. It should support the State and National Councils of Farmer Cooperatives, and Institutes of Cooperation.

References: FCA Circular E-18, entire circular. Arkansas Extension Circular 447, page 13. Virginia Extension Circular 476, page 29. Georgia Extension Bulletin 498, I, II, III and IV of section A.

2. Reasons for Farmer Cooperatives Going Out of Business

As already stated farmer cooperatives are business organizations and there is nothing magic in cooperation itself. As business organizations, cooperatives succeed when they follow the best business practices. On the other hand, they fail when these practices are neglected.

The management and the members are the main parts of the cooperative. Therefore, their weaknesses are the largest factors in failure. It is noteworthy that most of the causes of failure come from within the cooperatives. Less than 10 percent of the failures mentioned in a recent study were the result of competition. This shows the importance of careful planning before and during organization and of efficient operation.

The reasons for failure of a large number of agricultural cooperatives are given in table 1. Notice the similarity between the subjects mentioned as causes of failure and those mentioned above as reasons for success. Doing these things results in success—not doing them results in failure.

References: "Failures of Farmers' Cooperatives," American Institute of Cooperation. FCA Miscellaneous Report 65. Tennessee Agriculture Extension Service Circular 311, page 25. Texas Agriculture Extension Service Circular B-152, page 13. Georgia Extension Bulletin 498, section on "Some Factors Contributing to Failure."

3. Examples of State and Local Situations

a. *Successful*.—A detailed survey would not be advisable. However, glancing at the successful cooperatives in State and community, see how many of the success factors just studied are evident.

b. *Unsuccessful*.—The unsuccessful examples will no doubt be those that are out of business. Again, a detailed survey would not be advisable. However, from a quick glance see how many of the “causes of failure” factors just studied you can locate among the “out of business” cooperatives in your locality.

Table 1.—*Reasons why 11,272 cooperatives went out of business*¹

Reasons	Frequency	Percent
1. Difficulties in the field of management.....	2, 234	19. 8
(a) Ineffective management (1,290 cases).		
(b) High overhead (224).		
(c) Inadequate accounting and auditing (99).		
(d) Dishonest officials (73).		
(e) 1 man organization which failed without him (60).		
(f) Speculation (45).		
(g) Too high operating cost (30).		
(h) Poorly located plant (30).		
(i) (3).		
2. Difficulties in the field of membership.....	2, 220	19. 7
(a) Cooperation not understood (849).		
(b) Lack of interest (650).		
(c) Dissension among members (213).		
(d) Members failed to patronize association (155).		
(e) Lack of confidence (84).		
(f) Control lost to special interest groups (70).		
(g) Low grade products (39).		
(h) Members sold outside association.		
(i) (3).		
3. Natural or unavoidable causes.....	1, 231	10. 9
(a) Fire (307).		
(b) Shift in production (195).		
(c) Crop failure (252), low production (99), depression (82).		
(d) (3).		
4. Insufficient business.....	1, 161	10. 3
5. Financing and credit difficulties.....	1, 097	9. 6
(a) Working capital lacking (417).		
(b) Too liberal credit (304).		
(c) Advances to patrons not repaid (112).		
(d) (3).		
6. Transportation problems.....	1, 020	9. 1
(a) Auto-truck lines eliminated need for co-op (888).		
(b) Poor railroad service (54).		
7. Opposition from competing concerns.....	1, 003	8. 9
(a) Inability to meet competition (517).		
(b) Direct buying (172).		
(c) (3).		
8. Declining prices.....	614	5. 4
9. Consolidations and mergers.....	357	3. 2
10. Technological changes.....	135	1. 2
11. Miscellaneous reasons.....	218	1. 9
Total.....	11, 272	100

¹ FCA Miscellaneous Report 65.

² Others listed on p. 25 of FCA Miscellaneous Report 65.

³ Others listed on p. 30 of FCA Miscellaneous Report 65.

4. Effect of Farmer Cooperatives on the Community

a. *Successful*.—Successful farmer cooperatives raise the standard of living, promote democracy, and develop the leadership of the community.

References: "Agricultural America," American Institute of Cooperation, pages 17-21. FCA Circular E-32, page 30.

b. *Unsuccessful*.—The chief effect of unsuccessful cooperatives is to slow down or postpone further development in the community. New cooperatives are slow to rise on the ashes of old ones. The saying that a "burnt child avoids the fire" was never truer than in the case of cooperatives. Regardless of the cause of failure, growers hesitate to get into a new cooperative after a bad experience with another.

E. What Is the Historical Background and Growth of Farmer Cooperatives?

1. United States and Foreign Countries

a. *United States*.—Farmers began to organize cooperatives soon after 1800. These were all local organizations set up as individual community projects, with no coordination among the different organizations. By 1867 these locals were dotted over the Northeast, the Cotton Belt, the upper Mississippi Valley, and the far West.

References: FCS Educational Circular 1, p. 1. FCA-EM 23, GI Roundtable, page 2. FCA Bulletin 54, page 1.

b. *Foreign countries*.—The early cooperatives in the United States were being formed at the same time as those in modern Europe. However, the European countries were more thickly settled, had fewer natural resources, and the people had more experience in working together. Thus, there was a greater need for cooperatives and they grew more rapidly in Europe than in the United States. Of the European cooperatives, those of England and the Scandinavian countries have had the most influence on developments in the United States. The success of the Rochdale Pioneers in England provided an example for this country. Many emigrants came from the Scandinavian countries and settled in the United States. They brought their cooperative ideas with them and they have influenced development throughout the upper Mississippi Valley.

References: EM 23 GI Roundtable (FCA), pages 3 and 6. "Use of Mutual and Cooperative Techniques in Business Organizations," American Institute of Cooperation, page 132. Film: "A Trip to Cooperative Europe," Cooperative League of U. S. A.

2. Farm Organization Contributions

The general farm organizations have played an important part in the development of farmer cooperatives in this country. Four of these are still in operation and are active sponsors of cooperation. These are the National Grange, the Farmers Educational and Cooperative Union, the American Farm Bureau Federation, and the Farmers Equity Union.

The Grange was organized in 1867. Its influence crystallized the spasmodic organization of locals into a general program.

The Farmers Union was organized in 1902. It has always been a strong advocate of cooperation. Several other general farm organizations which are not now active were early sponsors of cooperatives. Among these were the Farmers' Alliance, the Agricultural Wheel, the American Society of Equity, and the Ancient Order of Gleaners.

In 1919 the older farm organizations were joined in sponsoring farmer cooperatives by the American Farm Bureau Federation. The Farm Bureau was organized at that time. It has always encouraged farmer cooperatives and actively sponsors them in many areas.

References: FCA Circular E-32, page 31. FCS Educational Circular 1, page 1. FCA Bulletin 54, page 1.

3. Examples of Local, State, Regional, and National Growth

a. *Local*.—Get acquainted with the cooperatives of your community. What are they? What do they do?

b. *State*.

References: FCA Miscellaneous Report 137, table 39, page 49. FCA has State cooperative bulletins for 28 States. Many of the State colleges have publications on the cooperatives of their States. Also some of the larger cooperatives have issued publications.

c. *Regional*.

Reference: FCA Miscellaneous Report 137, table 39, page 49.

d. *National*.

(1) *Marketing*.—The number of farmer marketing cooperatives increased steadily from 1900 to 1922. Since that time the number has declined. The associations, however, have become larger. Thus the total business done by marketing cooperatives has increased.

References: FCS Educational Circular 1, page 11. FCA Miscellaneous Report 137, pages 1 and 5. "Agricultural America," Am. Inst. of Co-op., pages 13 and 19. FCA Map, "Local Purchasing and Marketing Cooperatives and Retail Branches of Regional Cooperatives Handling Farm Supplies, 1948."

(2) *Purchasing*.—The number of farmer purchasing cooperatives has increased rather steadily since 1900. The volume of business has also shown a steady increase.

References: FCS Educational Circular 1, page 15. FCA Miscellaneous Report 137, pages 1 and 5. "Agricultural America," American Institute of Cooperation, page 11.

F. What Are the Authorizing Legal Aspects of Farmer Cooperatives?

1. Federal Laws Pertaining to Cooperatives

These laws give farmer cooperatives the authority to operate. During the last quarter of the past century there was a great concern over the development of big business. These combinations of

firms or trusts were considered harmful and a Federal law was passed to prevent these combinations (Sherman Anti-Trust Act of 1890).

During this same time farmer cooperatives were being sponsored by the Grange and by farm leaders. There was a tendency for public opinion to put the small community combination of farmers in the same class as the big business combinations or trusts. As a result, many cases or charges of restraining trade by preventing free competition in buying and selling were brought against the small cooperatives. Some of the cooperatives were convicted.

Reference: "The Legal Status of Agricultural Cooperation," E. G. Nourse, chapter X.

The Congress did not intend to class farmer cooperatives with big business, so two important laws were passed.

a. *The Clayton Amendment of 1914 to the Sherman Anti-Trust Act.*

Reference: FCA Bulletin 50, page 211.

b. *The Capper-Volstead Act of 1922.*

Reference: FCA Bulletin 50, page 213.

These laws make it clear that farmers, when organizing cooperatives, are not acting in restraint of trade. Cooperative organization therefore is permitted. After the organization is set up, however, the cooperatives are subject to the same laws as are other businesses. The "Authority to Act" laws just give the cooperatives the right to operate. They are not given any special privileges in their operation.

2. State Laws Governing Cooperatives

The national laws give cooperatives the authority to operate and set up general standards which they must meet. Most cooperatives are actually incorporated under the State laws. Each of the 48 States has at least one law applying to farmer cooperatives. Some States have several. The State laws set forth the specific rules which the cooperatives in that State must follow. These rules vary a great deal from State to State. Get a copy of the act or acts for your State and get acquainted with its or their provisions.

3. Local Regulations Affecting Cooperatives

There are no local regulations which apply especially to cooperatives. However, cooperatives are subject to all the regulations which apply to the kind of business in which they are engaged. These regulations of the town or city usually apply especially to health, sanitation, and fire protection. Get acquainted with the local regulations affecting the cooperatives in your community.

UNIT II

Determining the Need for Farmer Cooperatives in the Community

The first step in determining the needs of a community is to define the area of the community. The scope of a community will vary a great deal with the type of activity. When considering cooperative services, a practical rule is to confine the area to the distance the farmer can economically travel to secure the service. How far can he afford to haul products to market? How far can he economically drive to get supplies? The availability of competing services are important factors. A farmer will hesitate to drive much farther to his cooperative than he has to go to get the same service elsewhere.

Another preliminary step is to make a brief survey of the type of farmers in the community. Farmers who live in one community a long time are more likely to support a cooperative than those who move frequently. Also, those with some education are better supporters of cooperatives than those who have little education.

Reference: Pennsylvania Experiment Station Bulletin 457, pages 17 and 11.

A. What Cooperatives Are Now Serving the Community?

Make a list of the farmer cooperatives now serving your community. As a guide, refer to the examples cited in B 2 of unit I (examples of farmer cooperatives).

B. What Volume of Business Is Done by Cooperatives?

1. Purchasing
2. Marketing
3. Processing
4. Farm Services
5. Others

Time will doubtless not permit survey of the volume of all activities concerned in 1-5 above for all the commodities and services in the community. Therefore, from a review of B 2 of unit I, pick out a number of the more important. Further reduce this list to the number that can be handled within the time available. A new cooperative will likely be interested in retail services. Thus, it would be well to confine the first surveys to retail activities.

As far as possible obtain information direct from business firms. With the explanation that it is part of a survey for the school, most businessmen will be glad to cooperate. In case it is a community project, however, and competition is a factor, the businessmen will be less cooperative. In that case, estimates may be necessary. Data

on shipments secured from railroads, truck companies, and other haulers are valuable.

A summary should be made of each activity surveyed. This is necessary for convenient inspection and appraisal. Suggested summaries for surveys of cotton ginning and of the purchase of farm supplies are shown in tables 2 and 3. The survey material will vary with commodities and practices, but the essentials are illustrated in these tables.

C. What Is the Adequacy of Existing Cooperative and Noncooperative Services in Meeting Farmers' Needs as Measured by Cooperative Standards in the Following Areas?

A survey of existing services gives only part of the answer to the problem. Sufficient or even excess capacity may not be the correct measurement. Though available, services may cost too much, be badly located, and not be available at needed periods. Thus, the services must be appraised in the light of farmers' real needs.

When appraising the existing services, compare them with the services the farmers actually need. It is impossible to set up a uniform standard to fit all communities. So, you will have to just build one to fit your community. In doing this, study the available services in terms of the seven factors listed below. You may wish to add others. Probably you will need to get additional information regarding reasonable costs and services normally expected from certain costs. The county agent and others of the College of Agriculture can help with this information.

There may be a cooperative of known success in a nearby area which performs services similar to those in which you are interested. Its services and costs can be used to furnish a basis of comparison with the services of your community.

Note.—Before making this trip, review FCA Circular E-25, pages 1-5.

The seven areas to be measured are:

1. Convenience

Review your existing facilities. Are they centrally located? Could another be located more conveniently?

2. Efficiency

What is the general efficiency of the existing businesses? Are the methods up to date and modern? Is the equipment in good order and efficient? Are the employees busy? Are the activities duplicating or overlapping? Where and how could improvements be made?

3. Availability

Are the services available during the entire season, or do they close down during slack periods? Are the materials recommended, such as formulas and grades, available?

Table 2.—Cotton gins and ginning service in ----- community, 19-----

Name of gin	Volume in community			Equipment						Volume			Charges	
	Number of growers	Cotton acreage	Bales ginned	Age (years)	Fair value	Number of stands	Saws per stand	Type of equipment		Bales ginned	Seed (tons)	Capacity (bales)	Ginning	Handling seed
								Cleaning	Drying					
No. 1														
No. 2														
Others														
Outside of community				XXX	XXX	XXX	XXX	XXX	XXX					
Total				XXX	XXX	XXX	XXX	XXX	XXX				XXX	XXX

Table 3.—Farm supplies purchased in ----- community, 19-----

Firm	Fertilizer (tons)								Services rendered ⁴	Feed, petroleum, or other items		
	Mixed		Phosphate		Nitrates		Other ³					
	Formula ¹	Retail ² margin	Percent	Retail ² margin	Percent	Retail ² margin	Percent	Retail ² margin				
No. 1												
No. 2												
Others												
Outside of community												
Total		XXX		XXX		XXX		XXX				

¹ 5-10-5 or other mixture. If several formulas are studied additional columns will be needed.

² Difference between the usual retail selling price and the wholesale price.

³ Prepare additional columns for lime, potash, or other types.

⁴ Such items as farm delivery, cash only, credit, patronage refunds by cooperative, etc.

4. Cost of Services

Based on information from the College of Agriculture, nearby co-operatives and other sources, are you paying too much for your services?

5. Permanency

Are the services in question a stable part of the community business? Are the operators solid citizens or "in and outers"?

6. Community Spirit

Are the operators of the services being studied community minded? How do they compare with the requirements set up in "Community Relationships," National Council of Farmer Cooperatives, pages 14-18?

7. Social Benefits

Does extending the services in question promote and develop democracy among your farmers? Does it develop them as leaders? Does it contribute to the education and recreation of the farm family?

D. What Existing Services Should Be Expanded and What New Services Are Needed?

1. In Terms of II B, 1-5 Above

Review the surveys and appraisals made during studies in B and C of this unit. From this review, pick out the weak links in the services. These weak links may result from services which are not available or from services which need improving.

E. How to Get the Services Needed

The methods by which the needed or improved services can best be secured will depend upon the degree of organization and leadership available in the community. In general they can be secured through one of three methods. These methods are: (1) by affiliating with existing cooperatives, (2) by organizing a new cooperative, or (3) by improving the noncooperative sources. Each method has advantages and disadvantages.

1. Affiliate With an Existing Cooperative

a. Advantages.

(1) Benefit from the cooperative experience and leadership already developed.

(2) Benefit from the merchandising experience and trade good will of the established cooperative.

(3) Benefit from the facilities already established.

(4) Avoid wasteful competition with the established cooperative.

(5) Help to assure adequate volume.

b. Disadvantages.

(1) The services and facilities may not be sufficiently adapted to the local needs.

(2) The leadership of the new group may be "smothered" by the leaders of the established cooperatives.

(3) The new group may be handicapped by the opponents and mistakes of the established cooperative.

(4) Eliminating competition sometimes is a disadvantage.

2. Organize a New Cooperative

Before finally determining that the needed services can best be secured by organizing a new cooperative, carefully review section D of unit I, essentials for success and causes of failure. Since farmer cooperatives are business organizations, in addition to the need for the service and enough volume to maintain it, there must be sufficient leadership to provide it in an economical manner. Study this point carefully.

a. Advantages.

(1) Setup and program of the cooperative can be adapted to the specific needs of the community.

(2) The cooperative will be controlled by home people.

(3) The local leadership and community pride will be developed.

(4) The permanent benefits will belong to the community.

b. Disadvantages.

(1) As in all new business ventures, first operating costs will likely be high and first returns from sales will likely be low.

(2) Both officials and employees will be inexperienced.

(3) Business good will and market contacts will have to be developed.

(4) All the business risks must be borne by the local group.

3. Use of noncooperative

Farmer and community leadership can sometimes improve some services rendered by noncooperatives.

a. Advantages.

(1) No leadership necessary.

(2) Little responsibility required.

(3) Few risks involved.

(4) Settlements usually quick.

b. Disadvantages.

(1) Little chance to develop grower leadership.

(2) May not be able to secure adapted services. (Recommended formulas, etc.)

(3) No chance to benefit from "beyond the farm" earnings. (Margins, patronage refunds, improved market services, etc.)

(4) No chance to profit from the permanent business benefits of sound production practices.

(5) May place growers who need credit at disadvantage of local creditors.

UNIT III

Affiliating With Existing Cooperatives and Organizations of Cooperatives

Before proceeding with the program or affiliating with or joining an existing cooperative review carefully the information developed in section E of unit II. (How to get the services needed.)

Based on these studies you may have decided that it is more practical to join a cooperative that is serving or is equipped to serve your area than it is to organize a new one. This is a vital decision because you are about to become a partner in and part-owner of the cooperative. As incoming members you have not had an opportunity to help adopt the organization papers or to plan the program of the cooperative. You must take these as they are. Therefore, be sure that you thoroughly understand them. Also, be sure that the organization setup and programs are sound as to business practices and are truly cooperative in nature.

A. Study Charter and Bylaws and Their Legal Aspects

The authority or the power of the cooperative and the basic rules for operating it are set forth in the charter and bylaws. The details of these vary widely among farmer cooperatives. However, there are certain principles which should be in them all.

After studying these documents of the cooperative, check their provisions with those set up in A 2 of unit IV as being necessary features. Also, compare them with the suggested models in the following references:

References: FCA Bulletin 50, page 390. FCA Circular C-108, page 20. FCS Circular 1, page 26. Texas Extension Circular B-152, page 14.

B. Study Rights and Responsibilities

As a partner in a democratic organization you will have both rights and responsibilities.

Your rights will be of two kinds . . . property rights and the rights to services. Investigate the method of securing money from members, the method of keeping records of this money and how the members share in the ownership of the property of the association. Also find out how much property the association has. Study its financial statement or balance sheet. If the balance sheet is difficult to understand, study the simplified one shown on page 29 of Texas Extension Circular B-170 until you are familiar with the principal features.

Also, investigate the marketing or other services which are available to members. Get thoroughly acquainted with these so that you won't be disappointed after you join. Just what services does the cooperative perform with your products? What part of the services

are you expected to perform? When do you get your pay? When do you have to pay? Find out all about these things. As a member, what will your responsibilities be? Study the material and references on member responsibilities in section A of unit V. (What are the responsibilities of members?)

C. Apply for Membership

Most purchasing cooperatives have an open membership program. Under this program any producer can become a member by merely buying a share of common stock or by paying the membership fee.

Many marketing cooperatives, mutual insurance companies, and credit associations are more selective. Frequently an application for membership is required, in which case an application blank is filled out. This application is passed upon by the board of directors. After the application has been accepted, in case a marketing agreement is used, it is signed by the member and the appropriate officer of the association. Discuss the procedure for admitting new members with the manager or other officials of the cooperative. Also, it might be well to talk it over with the directors.

UNIT IV

Organizing A Farmer Cooperative

Before a start is made toward organizing a farmer cooperative in the community two things should be done: (1) Carefully review the "Success factors" and "Causes of discontinuance" in section D of unit I and (2) carefully review the material developed in unit II.

A. What Are the Legal Aspects That Affect the Organization of Farmer Cooperatives?

1. Reasons for Incorporation

It is advisable for farmer cooperatives to incorporate under the cooperative marketing act of the State. However, this is not required and many are not incorporated. An unincorporated association is considered a partnership by the laws. In a partnership any member can be held liable for all the debts of or damage suits against the organization. In an incorporated association the members are liable only for the amount of money they have invested in the cooperative. Owing to the risks involved it is essential that producers incorporate their cooperative.

References: FCA Bulletin 50, pages 28 and 293. FCA Circular C-108, page 5. Tennessee Extension Circular 311, page 6.

2. The Legal Instruments Needed to Organize a Farmer Cooperative

Three legal instruments are necessary in the organization of a farmer cooperative. A fourth is frequently used. The three neces-

sary instruments are: (1) the articles of incorporation or the charter, (2) the bylaws, and (3) the membership identification. The fourth instrument which may be used is a contract or agreement.

References: Tennessee Extension Circular 311, page 5. FCA Circular E-32, page 16. FCA Circular C-108, page 10.

a. *The articles of incorporation.*—The articles of incorporation must include seven distinct provisions. These provisions are: (1) the name of the association, (2) what the association intends to do, (3) the power or authority it intends to exercise in conducting its business, (4) the place of business or headquarters, (5) the period of existence of the association. (NOTE.—The period of permitted operation varies with States, so check your State laws.), (6) the number of directors, and (7) the kind of capital, such as stock or nonstock, the association will have.

References: FCA Circular C-108, page 21. FCA Bulletin 50, page 390. Texas Extension Service Circular B-152, page 14.

b. *The bylaws.*—The bylaws are the working plans of the cooperative. These can be in great detail and should at least have such general provisions as: (1) Who may be members, (2) how money is to be obtained, (3) how the money is to be handled, (4) how directors and officers are to be elected, (5) how long a term they shall serve, and (6) the number and type of meetings to be held.

Reference: FCA Bulletin 50, page 44.

Examples of bylaws: FCA Circular C-108, page 25. FCA Bulletin 50, page 397. Texas Extension Service Circular B-152, page 18.

c. *Membership identification.*—The type of instrument issued by the association to identify its members varies with type of association. In the nonstock association it is a membership certificate. In the stock association it is a common stock certificate.

d. *Agreement or contract.*—Many cooperatives have a special contract between the association and the members setting forth the responsibilities of each.

References: FCA Bulletin 50, page 121. FCA Circular C-108, page 10.

B. What Shall Be the Form and Plan of the Cooperative?

1. Services

Review the services which farmer cooperatives usually perform as outlined in section B, unit I. Compare these with the services needed in your community as shown from your studies in unit II (Determining the Need for Farmer Cooperatives in the Community). Sometimes the expected revenue from performing these services is not sufficient to maintain an efficient business. In this case, other needed services should be studied to determine whether or not they can be provided

by the new cooperative. Adding these may assure a business unit large enough to be practical.

2. Location and Size of Patronage Area

The size of the patronage area is important. It costs money for growers to deliver products and come for supplies. Don't expect them to drive farther than is economical. So be sure there is enough volume within the area to assure efficient service.

Refer to reasons for success and failure in section D of unit I (What are the essentials for success and failure?). Farmer cooperatives are business organizations and as such they succeed or fail in direct proportion to the extent to which they follow the best and the most economical practices. The location of the place of business in the patronage area is one of the important factors. It should be as convenient as possible to members as this reduces their costs of delivery. It should be located so that it will be convenient and economical to ship products in and out.

Check the highways and railroads which serve these interests best and have these in mind when planning your location. Check the sites which meet these qualifications and which can be purchased or leased most economically. Also, check the city regulations which might affect the location. Many times a nearby location is more economical than one uptown.

3. Capital Required

The operation of farmer cooperatives requires as much money as does any similar business. As the members are the owners they should provide the major portion of the money to get the business started.

References: FCA Circular E-20, page 2. FCA Circular E-32, page 18. FCA Circular C-108, page 4. Texas Extension Circular B-152, page 6.

It is stated in section C of unit I that money is invested by members in their cooperative to provide needed services and not to make profits. Thus, it is only fair that these investments be made by the members who are getting the benefit of these services. It is also proper that these investments be in proportion to the extent the member uses the service. A good way to accomplish this is by the revolving fund plan.

References: FCA Circular E-20, page 5. FCA Circular E-32, page 21. FCA Circular C-108, page 7. Texas Extension Circular B-152, page 6. Tennessee Extension Circular 311, page 13.

It is sound business for the farmer cooperative to borrow money to pay for the minor portion of their facilities and for peak season operating requirements.

References: FCA Circular 6. FCA Circular E-20, page 2. Tennessee Extension Circular 311, page 14. Texas Extension Circular B-152, page 6.

4. Risks To Assume

There are risks in all businesses. Farmer cooperatives must necessarily take the risks which go with the operations in which they are engaged. However, these should be *business* risks and not *gambler's* risks. An individual operating his own business may be willing and can afford to "take a chance." If he loses, he is the only one affected. However, many people are affected if a farmer cooperative "takes a chance" and loses. Thus, the farmer cooperative can't afford to take undue risks. It just *shouldn't* do it.

5. Stock or Nonstock

Farmer cooperatives may be organized with or without capital stock. Either type is equally cooperative in form. However, the stock type is the older form, and there are about two and one-half times as many stock associations as there are nonstock.

References: FCA Bulletin 26, page 53. FCA Bulletin 50, page 58. Tennessee Extension Circular 311, page 7.

6. Certificates To Be Issued

Some certificates and other instruments have been mentioned in A 2 of this unit. Others may be used. A nonstock association may issue certificates of indebtedness to members who loan it money. A stock association would issue preferred stock certificates to lender members. Revolving-fund certificates are needed if the cooperative uses the revolving-fund plan of financing.

References: FCA Bulletin 50, pages 416 and 417. Texas Extension Circular B-152, page 17. FCA Circular C-108, page 42.

7. Basis of Voting

Farmer cooperatives use several methods of voting. Over four-fifths of them, however, use the one-member one-vote method. About one-tenth still follow the plan used by noncooperative business in voting. Under this plan each member has as many votes as he has shares of common stock. A third method is to base voting on the amount of business the member does with the cooperative. A few cooperatives use a combination of these methods.

References: FCA Bulletin 26, page 55. FCA Bulletin 50, pages 24 and 109.

There are many State cooperative statutes that have special provisions regarding voting. Check these provisions for your State.

8. How the Cooperative Is To Be Controlled—Directors

As farmer cooperatives are democratic organizations, they are controlled by their members. It is impossible, however, for the individual members to handle the many details of day-to-day control. So this control is delegated to a selected group called directors.

The general plan of operating the cooperative and the number of directors, or a method of determining the number, are set forth in the

charter. Within the operating plan the members decide on broad programs for the cooperative and elect the directors. The directors are responsible for having these plans carried out. The directors usually are not trained businessmen and besides they have their farms to look after. Therefore, they hire a manager to look after the actual business operations.

References: FCA Circular E-21, pages 2, 3, and 4. FCA Bulletin 50, page 84. FCA Circular E-32, pages 6 and 7. Virginia Extension Circular 476, page 9. Texas Extension Circular B-152, page 9. Texas Extension Circular B-170, pages 6 and 15.

9. Manner of Settlement With Members

The differences between marketing and purchasing cooperatives were discussed in unit I.

It is the best policy for purchasing cooperatives to deal with their members on a cash basis only.

References: FCA Circular E-11, page 11. Arkansas Extension Circular 447, page 13. Tennessee Extension Circular 311, page 15. Texas Extension Circular B-152, page 8.

Marketing cooperatives use three general methods of settling with their members for products sold. These methods are: (a) buy outright, (b) pool, and (c) sell each member's products separately.

a. *Buy outright*.—With this method, the cooperative pays the member the local market price for the product at time of delivery. Grain and cotton cooperatives largely follow this plan.

Reference: FCA Bulletin 26, page 36.

b. *Pooling*.—With this method the sales returns from all the products of like grades during a specified period are pooled. The costs are deducted and all members with products in the pool receive the same net returns per unit. Cooperatives for fruits and vegetables, wool, poultry and dairy products largely use pools.

References: FCA Bulletin 50, page 142. FCA Bulletin 26, page 36.

c. *Sell each member's products separately*.—A few cooperatives sell the products of each member separately and pay the member the amount of each sale less the sales charges. This requires too much record keeping to be practical for an association with many members.

10. Membership

The membership of a farmer cooperative should be limited to agricultural producers.

References: Tennessee Extension Circular 311, page 16. Texas Extension Circular B-152, page 5. FCA Bulletin 50, page 213 (Capper-Volstead Act). FCA Circular C-108, page 42 (Capper-Volstead Act).

11. Whether to Affiliate With Other Cooperative Associations

The general trend of business is toward larger units. This is true of both cooperative and noncooperative types of business. A cooperative which serves just one community can perform some valuable local services. However, successful buying and selling depend upon outside business connections. Affiliating with other associations will sometimes enable the cooperative to make these connections more economically.

Reference: Arkansas Extension Circular 447, page 16.

12. Independent Local, Centralized, or Federated Cooperatives

A local cooperative is an association in which both the membership and business center are confined to one community or local area.

A centralized cooperative is really a large local as far as structure is concerned. The growers have membership directly in the central association. However, the association may serve a wide area, sometimes several States.

A federated cooperative is a union of local associations. The growers belong to the local—the local, in turn, with other locals makes up the membership of the federation.

References: EM23 G. I. Round Table (FCA), page 15. FCA Bulletin 54, page 13. FCA Circular E-32, page 23. Tennessee Extension Circular 311, page 4. Virginia Extension Circular 476, page 24. Arkansas Extension Circular 447, page 7.

C. How to Obtain Membership, Capital, and Business Volume

The need for establishing the association, the volume of business in the community, and the present methods of handling this business have been determined in unit II (Determining the Need for Farmer Cooperatives in the Community). Review this material carefully. Then a meeting should be called, the problem thoroughly discussed, and an organization committee appointed. This committee can save time by preparing an organization agreement to be signed by the prospective members.

References: FCA Circular C-108, pages 2, 3, and 4. FCA Circular E-19, page 7. FCA Bulletin 50, page 386.

D. How to Incorporate and Complete the Organization

As stated repeatedly, farmer cooperatives are business organizations and will succeed or fail on their business efficiency. The charter, bylaws, and other organization papers are the foundation of the association. Therefore, it is necessary that these instruments be drawn up correctly. This requires a knowledge of the national and State laws and of cooperative practices and procedure. It is usually not practical for a local group to attempt to learn all these details. Rather, it is more practical for the local leaders to become familiar with the general provisions of the organization documents mentioned

in A 2 of this unit. After this has been done, the cooperative specialists of the College of Agriculture or other specialists should be asked to advise on the actual details of organization.

References: FCA Circular C-108, documents beginning page 14. FCA Bulletin 50, documents beginning page 385. FCA Circular E-19, page 8. FCA Circular E-32, page 14. Tennessee Extension Circular 311, page 8. Texas Extension Circular B-152, page 5.

UNIT V

Operating, Managing, and Participating in Farmer Cooperatives

The operation, management, and participation in a farmer cooperative involve a three-link chain. Each link is a definite part of the chain and the chain is no stronger than the weakest of the links. These links are the members, the directors, and the manager.

A. What Are the Responsibilities of the Members?

The responsibility of the members toward their cooperatives is the same as it is toward their own farms. They own them both. The farm is operated to produce the products for sale. The cooperative provides the departments through which to purchase the needed supplies for the farm, to sell the finished products of the farm, and to secure other needed services.

As owners of the cooperative the members are responsible for its operation. Thus they should be as interested in its activities as they are in the operations of their farms. They must remember, however, that the relationships are different. They are the sole operators and bosses of their farms. Whereas, along with all the other members, they are the joint-owners and bosses of their cooperative. Thus, the members have the interests of an owner but these interests are combined with those of all the other members. Therefore, decisions should be made for the benefit of all.

All the responsibilities revolve around the fundamental point that the members are the joint-owners of the cooperative. Several important ones are:

1. Develop a give-and-take-spirit. A "do it my way or else" member is just as bad as a "mouselike" member who never expresses himself.
2. Keep informed about its programs.
3. Express views, but in a democratic manner.
4. Accept the policies determined by the majority.
5. Defend the cooperative in a nonpartisan manner.
6. Give it wholehearted patronage.
7. Tell others about your co-op.

References: "Community Relationships," page 3, National Council of Farmer Cooperatives and American Institute of Cooperation. Tennessee Extension Circular 311, page 11. Georgia Extension Bulletin 498, section B I.

B. What Are the Duties of Directors?

The directors of a farmer cooperative have a twofold responsibility. One of these responsibilities is to the members for the successful operation of the association. The other responsibility is to the general public for conducting a business that helps improve the general welfare of the community.

1. Operational Duties

Members elect the directors to take charge of the affairs of the association. Thus, they should represent all the members in their actions and not their own individual interests. In representing the members they are responsible for carrying out the programs and policies of the cooperatives as set forth in the organization papers and as voted by the members. They are also responsible for hiring a competent manager, for setting up a system of progress reports and audits, and then letting the manager alone to run the day-to-day details of the business. The directors should be and usually are successful farmers and good business men. However, they are too busy with their own farms to become involved with the operating details of the cooperative. They should, however, carefully study the progress reports of the manager so as to be thoroughly familiar with the status of the business.

References: FCA Bulletin 50, pages 83 and 407. FCA Circular E-32, page 7. FCA Circular E-21, page 2. FCA Circular C-108, page 27. Tennessee Extension Circular 311, page 18. Texas Extension Circular B-170, pages 1-20. Georgia Extension Bulletin 498, section B II.

2. Relationships

Farmer cooperatives are a part of the business life of the communities in which they operate. Thus, they have the same responsibility for taking part in and for maintaining community activities as the noncooperative types of business. It is the job of the directors to develop policies for creating and maintaining the good will necessary for the cooperative to be a real part of the community.

References: Texas Extension Circular B-170, pages 20-26. "Community Relationships"—The National Council of Farmer Cooperatives and the American Institute of Cooperation—whole publication.

C. What Are the Duties of the Manager?

The last of the three-link chain—control of and participation in a farmer cooperative—is the manager. The first link is the members.

The middle link is the directors. The manager should carefully follow the operating plan as developed by the directors.

The manager should be a good businessman. Also, he should be familiar with the particular type of business in which the cooperative is engaged. This is necessary as the cooperative is in competition with all other firms in the same type of business.

References: FCA Bulletin 50, page 409. FCA Circular C-108, page 31. FCA Circular E-32, page 8. FCA Circular E-21, page 7. Texas Extension Circular B-170, page 15. Georgia Extension Bulletin 498, section B III.

D. What Relationship Does (or Should) the Local Cooperative Have With Other Cooperatives?

1. Business

The whole trend of business is toward larger units. In view of this fact the local cooperative is handicapped when trying to do business alone. It can perform valuable local services but bumps into competition with big business when it gets outside the community.

Many associations are solving this problem through joining hands with other cooperatives. For instance, a local association may buy its supplies through a cooperative wholesale or through a larger cooperative. Or, it may secure a cooperative sales agency or a larger cooperative to sell its products. In this way the local association can enlarge its services.

Reference: *FCA News for Farmer Cooperatives*—January 1947, page 13.

2. Legislative

The operations of farmer cooperatives have been made possible through national and State legislation. The first legislation resulted from the efforts of the general farm organizations. Later the general farm organizations were joined by organizations of the cooperatives.

These two groups now continually observe matters before the national and State legislatures which affect agricultural cooperatives. The general farm and national cooperative organizations work on national problems. The State cooperative councils and State farm organizations work on State problems. The local cooperative can best assist in these programs through its State cooperative council or by affiliating with a larger cooperative which is a member of a national organization.

Reference: "The General Farm and National Cooperative Organizations"—American Institute of Cooperation.

3. Educational Purposes

As in any democracy the problem of education in farmer cooperatives is never ending. This involves education for the general public, the membership, and the future members. The farmer cooperatives

maintain a national organization, the American Institute of Cooperation, to assist with these educational programs. Again, a local cooperative can best assist with these programs through its State cooperative council or by affiliating with a larger cooperative which has a direct membership.

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Supplement

Suggested Procedure for Using FFA Cooperatives as a "Learn by Doing" Method of Teaching Cooperation¹

THE value of using FFA Cooperatives as a training device for teaching cooperation in vocational agriculture schools has been suggested by leaders in several states. This method is a natural projection of a practice which is quite general in the vocational agricultural schools. This practice is group purchasing or selling and has long been common procedure in schools of this type.

Through group buying and selling the boys get the benefits of any savings or increase in price which may result from group action. However, they do not get actual experience in the many processes of a co-op in action.

By formally organizing the cooperative and operating it, such bewildering and seemingly academic terms as *retains*, *reserves*, *patronage refunds*, *stock certificates* and *member* and *nonmember business* take on life and have a real meaning. In like manner, relationships and responsibilities between members, directors and managers become clearer in the light of actual experience. These relationships are easy to confuse. In after years, when they become members of the community cooperative, these boys will not be bewildered at these terms and relationships. Thus, they will have an advantage their dads did not have.²

Operating a cooperative, however, involves business practices and business methods. At present price levels, these operations can get into big business rather quickly. In case the junior cooperative is organized chiefly as an educational device, its operations might be simple. In this case, few operations are necessary, limited funds would be handled and thus few risks incurred. For practice training the organization documents and instruments would be drawn up, officers elected and formal practices followed. In such a case it would not be necessary to incorporate the cooperative.

In other instances, the junior cooperatives may wish to do more business. They may want to own a truck, tractor or other equipment. If so, insurance is involved and liabilities assumed. Thus in the cases where the junior cooperatives wish to really get into business, the best procedure is to incorporate the organization. It will provide additional training for the junior members as well as relieve them and their dads of risks. The value of and reasons for incorporating cooperatives are developed in Unit IV of FCS Educational Circular 3. Also other references are cited on the procedure to be followed.

¹ The same procedure will apply to 4-H Club cooperatives.

² See FCS Circular 1, Cooperative Business Training for Farm Youth.

A usual requirement for incorporating a cooperative is that the incorporators and legal members be citizens who have reached their majority. Naturally, FFA members are minors. Thus, a problem arises in incorporating these junior cooperatives.

An attempt has been made here to outline practical procedure for getting around this difficulty. The procedure centers in the principle of the father or other guardian of the junior member holding the stock or other evidence of investment or membership as trustee for the junior member.

Suggested steps for this procedure will be set forth:

1. Organize the cooperative along lines suggested in Unit IV.
2. Draw up the charter in complete detail, setting forth all of the purposes of the cooperative and other needed provisions.
3. The required number of dads or guardians will sign the application for charter as incorporating directors.
4. Prepare the stock or membership certificates in the name of the parent or guardian as trustee for the junior member. It might read:

John Doe, Trustee for John Doe, Junior

The certificate should also contain a statement similar to the following:

“Trustee ceases to have voting rights in _____ Cooperative at such time as John Doe, Junior, ceases to be a member of _____ FFA Chapter.”

5. Two sets of bylaws are needed. One, the official bylaws, for the guidance of the adults as trustee members. Two, an operating set for the guidance of the junior members in actually carrying on the affairs of the association.

The official or “adult” bylaws can be very brief. Essentially, they might just provide for the minimum board (as required by state laws), the times when such board would meet and for one regular meeting per year (the annual meeting) of the members of the cooperative.

The other set of “bylaws” for actually operating the junior cooperative should be drawn up in complete detail. However, it is to be remembered that these “bylaws” are merely for the guidance of the junior members. The other set will be the official instrument.

6. The adult directors would adopt appropriate resolutions to provide the authorizations for the conduct of the business of the cooperative. By this means the boys could be authorized to carry on the day-to-day work of the cooperative in the same manner as the boys might be assigned to work in the packing shed of the cooperative or to do any work for it in case they were hired. In this way they could run the organization completely in its ordinary and regular operations. An authorized adult officer, however, should sign all legal papers and contracts including checks. As part of the training

it would be well for the corresponding junior officer to countersign these documents with him:

7. The annual meeting for electing directors is the only essential meeting for the adults. This might well be a gala father and son dinner or annual round-up affair. The junior members could review the cooperative activities of the year. The dads would elect "watch-dog" directors for the ensuing year and thus maintain the continuity of the cooperative.

8. The junior members would elect their own board members, officers, and manager as required by their bylaws and follow its provisions in operating the association.

9. Through this procedure a junior cooperative could own property and conduct business without any more risk or liability than is incurred by any other business corporation.

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